



0000100031

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2009 JUN 26 A 9:55

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY, AND
FOR ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE AND
FOR CERTAIN RELATED APPROVALS
BASED THEREON.

DOCKET NO. W-01445A-08-0440

**STAFF'S NOTICE OF FILING
COST OF SERVICE DIRECT TESTIMONY
AND REQUEST FOR BRIEF EXTENSION
OF RATE DESIGN TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Cost of Service Direct Testimony of Staff Witness Steven Olea, in the above-referenced matter.

While Staff's Rate Design Direct Testimony was also due today, Staff hereby requests an additional two (2) business days to file this testimony. This additional time is needed as a result of unforeseen factors/complexities concerning the consolidation of several systems. Staff has conferred with all parties regarding this late filing and they have no objection to the June 30, 2009, filing of its Rate Design Direct Testimony.

Staff, in turn, agrees to extend the filing deadline by an additional two (2) business days for the parties to file Rate Design Rebuttal Testimony, should the other parties need it. However, Staff is recommending that all other filing deadlines shall remain unchanged.

RESPECTFULLY SUBMITTED this 26th day of June, 2009.Arizona Corporation Commission
DOCKETED

DOCKETED BY

Wesley C. Van Cleve, Staff Counsel
Nancy L. Scott, Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

1 Original and thirteen (13) copies
2 of the foregoing were filed this
3 26th day of June, 2009 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 Copy of the foregoing mailed this
9 26th day of June, 2009 to:

10 Robert W. Geake
11 ARIZONA WATER COMPANY
12 Post Office Box 29006
13 Phoenix, Arizona 85038-9006

14 Norman D. James
15 Jay L. Shapiro
16 FENNEMORE CRAIG
17 3003 North Central Avenue, Suite 2600
18 Phoenix, Arizona 85012

19 Michelle L. Wood
20 RUCO
21 1110 West Washington, Suite 220
22 Phoenix, Arizona 85007

23 Nicholas J. Enoch
24 Jarrett J. Haskovec
25 LUBIN & ENOCH, P.C.
26 349 North Fourth Avenue
27 Phoenix, Arizona 85003

28 Michele Van Quathem
RYLEY, CARLOCK & APPLEWHITE
One North Central Avenue, Suite 1200
Phoenix, Arizona 85004-4417

29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100
101
102
103
104
105
106
107
108
109
110
111
112
113
114
115
116
117
118
119
120
121
122
123
124
125
126
127
128
129
130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177
178
179
180
181
182
183
184
185
186
187
188
189
190
191
192
193
194
195
196
197
198
199
200
201
202
203
204
205
206
207
208
209
210
211
212
213
214
215
216
217
218
219
220
221
222
223
224
225
226
227
228
229
230
231
232
233
234
235
236
237
238
239
240
241
242
243
244
245
246
247
248
249
250
251
252
253
254
255
256
257
258
259
260
261
262
263
264
265
266
267
268
269
270
271
272
273
274
275
276
277
278
279
280
281
282
283
284
285
286
287
288
289
290
291
292
293
294
295
296
297
298
299
300
301
302
303
304
305
306
307
308
309
310
311
312
313
314
315
316
317
318
319
320
321
322
323
324
325
326
327
328
329
330
331
332
333
334
335
336
337
338
339
340
341
342
343
344
345
346
347
348
349
350
351
352
353
354
355
356
357
358
359
360
361
362
363
364
365
366
367
368
369
370
371
372
373
374
375
376
377
378
379
380
381
382
383
384
385
386
387
388
389
390
391
392
393
394
395
396
397
398
399
400
401
402
403
404
405
406
407
408
409
410
411
412
413
414
415
416
417
418
419
420
421
422
423
424
425
426
427
428
429
430
431
432
433
434
435
436
437
438
439
440
441
442
443
444
445
446
447
448
449
450
451
452
453
454
455
456
457
458
459
460
461
462
463
464
465
466
467
468
469
470
471
472
473
474
475
476
477
478
479
480
481
482
483
484
485
486
487
488
489
490
491
492
493
494
495
496
497
498
499
500
501
502
503
504
505
506
507
508
509
510
511
512
513
514
515
516
517
518
519
520
521
522
523
524
525
526
527
528
529
530
531
532
533
534
535
536
537
538
539
540
541
542
543
544
545
546
547
548
549
550
551
552
553
554
555
556
557
558
559
560
561
562
563
564
565
566
567
568
569
570
571
572
573
574
575
576
577
578
579
580
581
582
583
584
585
586
587
588
589
590
591
592
593
594
595
596
597
598
599
600
601
602
603
604
605
606
607
608
609
610
611
612
613
614
615
616
617
618
619
620
621
622
623
624
625
626
627
628
629
630
631
632
633
634
635
636
637
638
639
640
641
642
643
644
645
646
647
648
649
650
651
652
653
654
655
656
657
658
659
660
661
662
663
664
665
666
667
668
669
670
671
672
673
674
675
676
677
678
679
680
681
682
683
684
685
686
687
688
689
690
691
692
693
694
695
696
697
698
699
700
701
702
703
704
705
706
707
708
709
710
711
712
713
714
715
716
717
718
719
720
721
722
723
724
725
726
727
728
729
730
731
732
733
734
735
736
737
738
739
740
741
742
743
744
745
746
747
748
749
750
751
752
753
754
755
756
757
758
759
760
761
762
763
764
765
766
767
768
769
770
771
772
773
774
775
776
777
778
779
780
781
782
783
784
785
786
787
788
789
790
791
792
793
794
795
796
797
798
799
800
801
802
803
804
805
806
807
808
809
810
811
812
813
814
815
816
817
818
819
820
821
822
823
824
825
826
827
828
829
830
831
832
833
834
835
836
837
838
839
840
841
842
843
844
845
846
847
848
849
850
851
852
853
854
855
856
857
858
859
860
861
862
863
864
865
866
867
868
869
870
871
872
873
874
875
876
877
878
879
880
881
882
883
884
885
886
887
888
889
890
891
892
893
894
895
896
897
898
899
900
901
902
903
904
905
906
907
908
909
910
911
912
913
914
915
916
917
918
919
920
921
922
923
924
925
926
927
928
929
930
931
932
933
934
935
936
937
938
939
940
941
942
943
944
945
946
947
948
949
950
951
952
953
954
955
956
957
958
959
960
961
962
963
964
965
966
967
968
969
970
971
972
973
974
975
976
977
978
979
980
981
982
983
984
985
986
987
988
989
990
991
992
993
994
995
996
997
998
999
1000
1001
1002
1003
1004
1005
1006
1007
1008
1009
1010
1011
1012
1013
1014
1015
1016
1017
1018
1019
1020
1021
1022
1023
1024
1025
1026
1027
1028
1029
1030
1031
1032
1033
1034
1035
1036
1037
1038
1039
1040
1041
1042
1043
1044
1045
1046
1047
1048
1049
1050
1051
1052
1053
1054
1055
1056
1057
1058
1059
1060
1061
1062
1063
1064
1065
1066
1067
1068
1069
1070
1071
1072
1073
1074
1075
1076
1077
1078
1079
1080
1081
1082
1083
1084
1085
1086
1087
1088
1089
1090
1091
1092
1093
1094
1095
1096
1097
1098
1099
1100
1101
1102
1103
1104
1105
1106
1107
1108
1109
1110
1111
1112
1113
1114
1115
1116
1117
1118
1119
1120
1121
1122
1123
1124
1125
1126
1127
1128
1129
1130
1131
1132
1133
1134
1135
1136
1137
1138
1139
1140
1141
1142
1143
1144
1145
1146
1147
1148
1149
1150
1151
1152
1153
1154
1155
1156
1157
1158
1159
1160
1161
1162
1163
1164
1165
1166
1167
1168
1169
1170
1171
1172
1173
1174
1175
1176
1177
1178
1179
1180
1181
1182
1183
1184
1185
1186
1187
1188
1189
1190
1191
1192
1193
1194
1195
1196
1197
1198
1199
1200
1201
1202
1203
1204
1205
1206
1207
1208
1209
1210
1211
1212
1213
1214
1215
1216
1217
1218
1219
1220
1221
1222
1223
1224
1225
1226
1227
1228
1229
1230
1231
1232
1233
1234
1235
1236
1237
1238
1239
1240
1241
1242
1243
1244
1245
1246
1247
1248
1249
1250
1251
1252
1253
1254
1255
1256
1257
1258
1259
1260
1261
1262
1263
1264
1265
1266
1267
1268
1269
1270
1271
1272
1273
1274
1275
1276
1277
1278
1279
1280
1281
1282
1283
1284
1285
1286
1287
1288
1289
1290
1291
1292
1293
1294
1295
1296
1297
1298
1299
1300
1301
1302
1303
1304
1305
1306
1307
1308
1309
1310
1311
1312
1313
1314
1315
1316
1317
1318
1319
1320
1321
1322
1323
1324
1325
1326
1327
1328
1329
1330
1331
1332
1333
1334
1335
1336
1337
1338
1339
1340
1341
1342
1343
1344
1345
1346
1347
1348
1349
1350
1351
1352
1353
1354
1355
1356
1357
1358
1359
1360
1361
1362
1363
1364
1365
1366
1367
1368
1369
1370
1371
1372
1373
1374
1375
1376
1377
1378
1379
1380
1381
1382
1383
1384
1385
1386
1387
1388
1389
1390
1391
1392
1393
1394
1395
1396
1397
1398
1399
1400
1401
1402
1403
1404
1405
1406
1407
1408
1409
1410
1411
1412
1413
1414
1415
1416
1417
1418
1419
1420
1421
1422
1423
1424
1425
1426
1427
1428
1429
1430
1431
1432
1433
1434
1435
1436
1437
1438
1439
1440
1441
1442
1443
1444
1445
1446
1447
1448
1449
1450
1451
1452
1453
1454
1455
1456
1457
1458
1459
1460
1461
1462
1463
1464
1465
1466
1467
1468
1469
1470
1471
1472
1473
1474
1475
1476
1477
1478
1479
1480
1481
1482
1483
1484
1485
1486
1487
1488
1489
1490
1491
1492
1493
1494
1495
1496
1497
1498
1499
1500
1501
1502
1503
1504
1505
1506
1507
1508
1509
1510
1511
1512
1513
1514
1515
1516
1517
1518
1519
1520
1521
1522
1523
1524
1525
1526
1527
1528
1529
1530
1531
1532
1533
1534
1535
1536
1537
1538
1539
1540
1541
1542
1543
1544
1545
1546
1547
1548
1549
1550
1551
1552
1553
1554
1555
1556
1557
1558
1559
1560
1561
1562
1563
1564
1565
1566
1567
1568
1569
1570
1571
1572
1573
1574
1575
1576
1577
1578
1579
1580
1581
1582
1583
1584
1585
1586
1587
1588
1589
1590
1591
1592
1593
1594
1595
1596
1597
1598
1599
1600
1601
1602
1603
1604
1605
1606
1607
1608
1609
1610
1611
1612
1613
1614
1615
1616
1617
1618
1619
1620
1621
1622
1623
1624
1625
1626
1627
1628
1629
1630
1631
1632
1633
1634
1635
1636
1637
1638
1639
1640
1641
1642
1643
1644
1645
1646
1647
1648
1649
1650
1651
1652
1653
1654
1655
1656
1657
1658
1659
1660
1661
1662
1663
1664
1665
1666
1667
1668
1669
1670
1671
1672
1673
1674
1675
1676
1677
1678
1679
1680
1681
1682
1683
1684
1685
1686
1687
1688
1689
1690
1691
1692
1693
1694
1695
1696
1697
1698
1699
1700
1701
1702
1703
1704
1705
1706
1707
1708
1709
1710
1711
1712
1713
1714
1715
1716
1717
1718
1719
1720
1721
1722
1723
1724
1725
1726
1727
1728
1729
1730
1731
1732
1733
1734
1735
1736
1737
1738
1739
1740
1741
1742
1743
1744
1745
1746
1747
1748
1749
1750
1751
1752
1753
1754
1755
1756
1757
1758
1759
1760
1761
1762
1763
1764
1765
1766
1767
1768
1769
1770
1771
1772
1773
1774
1775
1776
1777
1778
1779
1780
1781
1782
1783
1784
1785
1786
1787
1788
1789
1790
1791
1792
1793
1794
1795
1796
1797
1798
1799
1800
1801
1802
1803
1804
1805
1806
1807
1808
1809
1810
1811
1812
1813
1814
1815
1816
1817
1818
1819
1820
1821
1822
1823
1824
1825
1826
1827
1828
1829
1830
1831
1832
1833
1834
1835
1836
1837
1838
1839
1840
1841
1842
1843
1844
1845
1846
1847
1848
1849
1850
1851
1852
1853
1854
1855
1856
1857
1858
1859
1860
1861
1862
1863
1864
1865
1866
1867
1868
1869
1870
1871
1872
1873
1874
1875
1876
1877
1878
1879
1880
1881
1882
1883
1884
1885
1886
1887
1888
1889
1890
1891
1892
1893
1894
1895
1896
1897
1898
1899
1900
1901
1902
1903
1904
1905
1906
1907
1908
1909
1910
1911
1912
1913
1914
1915
1916
1917
1918
1919
1920
1921
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939
1940
1941
1942
1943
1944
1945
1946
1947
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
2037
2038
2039
2040
2041
2042
2043
2044
2045
2046
2047
2048
2049
2050
2051
2052
2053
2054
2055
2056
2057
2058
2059
2060
2061
2062
2063
2064
2065
2066
2067
2068
2069
2070
2071
2072
2073
2074
2075
2076
2077
2078
2079
2080
2081
2082
2083
2084
2085
2086
2087
2088
2089
2090
2091
2092
2093
2094
2095
2096
2097
2098
2099
2100
2101
2102
2103
2104
2105
2106
2107
2108
2109
2110
2111
2112
2113
2114
2115
2116
2117
2118
2119
2120
2121
2122
2123
2124
2125
2126
2127
2128
2129
2130
2131
2132
2133
2134
2135
2136
2137
2138
2139
2140
2141
2142
2143
2144
2145
2146
2147
2148
2149
2150
2151
2152
2153
2154
215

(COST OF SERVICE)

DIRECT

TESTIMONY

OF

STEVE M. OLEA

DOCKET NO. W-01445A-08-0440

**IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR INCREASE
IN ITS WATER RATES AND CHARGES FOR
UTILITY SERVICES**

JUNE 26, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATIONS OF)
ARIZONA WATER COMPANY, AN ARIZONA)
CORPORATION, FOR A DETERMINATION)
OF THE FAIR VALUE OF ITS UTILITY PLANT)
AND PROPERTY, AND FOR ADJUSTMENTS)
TO ITS RATES AND CHARGES FOR UTILITY)
SERVICE AND FOR CERTAIN RELATED)
APPROVALS BASED THEREON)

DOCKET NO. W-01445A-08-0440

DIRECT

TESTIMONY

OF

STEVEN M. OLEA

ASSISTANT DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 26, 2009

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PURPOSE.....	3
COST OF SERVICE STUDY	4

SCHEDULES

CASA GRANDE COST OF SERVICE STUDY – PRESENT REVENUE.....	SMO-1
CASA GRANDE COST OF SERVICE STUDY – PROPOSED REVENUE.....	SMO-2

INTRODUCTION

Q. Please state your name and business address.

A. Steven M. Olea, 1200 West Washington, Phoenix, Arizona, 85007.

Q. By whom and in what capacity are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission") as the Assistant Director for the Utilities Division ("Division").

Q. Please state your educational background.

A. I graduated from Arizona State University ("ASU") in 1976 with a Bachelors Degree in Civil Engineering. From 1976 to 1978, I obtained 47 graduate hours of credit in Environmental Engineering at ASU.

Q. Please state your pertinent work experience.

A. From April 1978 to October 1978, I worked for the Engineering Services Section of the Bureau of Air Quality Control in the Arizona Department of Health Services ("ADHS"). My responsibilities were to inspect air pollution sources to determine compliance with ADHS rules and regulations.

From November 1978 to July 1982, I was with the Technical Review Unit of the Bureau of Water Quality Control ("BWQC") in ADHS (this is now part of the Arizona Department of Environmental Quality ["ADEQ"]). My responsibilities were to review water and wastewater construction plans for compliance with ADHS rules, regulations, and Engineering Bulletins.

1 From July 1982 to August 1983, I was with the Central Regional Office, BWQC, ADHS.
2 My responsibilities were to conduct construction inspections of water and wastewater
3 facilities to determine compliance with plans approved by the Technical Review Unit. I also
4 performed routine operation and maintenance inspections to determine compliance with
5 ADHS rules and regulations, and compliance with United States Environmental Protection
6 Agency requirements.

7
8 From August 1983 to August 1986, I was a Utilities Consultant/Water-Wastewater Engineer
9 with the Division. My responsibilities were to provide engineering analyses of Commission
10 regulated water and wastewater utilities for rate cases, financing cases, and consumer
11 complaint cases. I also provided testimony at hearings for those cases.

12
13 From August 1986 to August 1990, I was the Engineering Supervisor for the Division. My
14 primary responsibility was to oversee the activities of the Engineering Section, which
15 included one technician and eight Utilities Consultants. The Utilities Consultants included
16 one Telecommunications Engineer, three Electrical Engineers, and four Water-Wastewater
17 Engineers. I also assisted the Chief Engineer and performed some of the same tasks as I did
18 as a Utilities Consultant.

19
20 In August 1990, I was promoted to the position of Chief Engineer. My duties were
21 somewhat the same as when I was the Engineering Supervisor, except that now I was less
22 involved with the day-to-day supervision of the Engineering Staff and more involved with
23 the administrative and policy aspects of the Engineering Section.

1 In April 2000, I was promoted to my present position as one of two Assistant Directors of the
2 Division. In this position, I assist the Division Director in the policy aspects of the Division.
3 I am primarily responsible for matters dealing with water and energy.

4 **PURPOSE**

5 **Q. What was your assignment in this case?**

6 A. My assignment was to review the Cost of Service Study ("COSS") performed by Arizona
7 Water Company ("AZ Water" or "Company").

8
9 **Q. What is the purpose of this prefiled testimony?**

10 A. This testimony will discuss my review of AZ Water's COSS and present the results of that
11 review along with Staff's recommendations.

12
13 **Q. Have you reviewed or prepared COSSs in the past or as part of your duties at the**
14 **Commission?**

15 A. Yes, I have prepared and/or reviewed COSSs for water, sewer, electric and natural gas
16 utilities. Some of these cases include Arizona Water Company rate cases (Docket Nos.
17 U-1445-85-037 and U-1445-91-227), Arizona Sierra Utility Company (Docket No. U-2140-
18 87-219), Graham County Electric Cooperative (Docket No. U-1749-92-298), Sulphur
19 Springs Valley Electric Cooperative (Docket No. U-1575-92-220), and Southwest Gas
20 Corporation (Docket No. U-1551-86-300). This is not an all-inclusive listing.

1 **Q. Was rate design part of your assignment?**

2 A. Rate design should not be confused with COSS. A COSS is the allocation of only costs to
3 each customer class. Rate design involves the allocation of revenues to each customer class
4 along with the development of the particular rate to achieve that revenue. The COSS is only
5 one of many factors that is considered when allocating revenues. Once the revenue
6 allocation is completed, then specific rates are designed to collect those revenues. Staff's
7 primary rate design witness in this case is Mr. Jeffrey Michlik. I assisted Mr. Michlik in
8 developing specific Residential rates for some of the systems.

9
10 **COST OF SERVICE STUDY**

11 **Q. What is a Cost of Service Study?**

12 A. In very simple terms, a COSS is an estimation of cost-causation by customer class, i.e. how
13 much does it cost the utility to provide its service to each specific customer class. The reason
14 for determining the costs incurred by the utility to serve each customer class is to assist in
15 allocating the revenue requirement for each customer class.

16
17 For each type utility, there are several generally accepted methods for conducting a COSS.
18 There is no one "correct" COSS method, but rather a range of reasonable alternatives. This
19 is not to suggest that COSSs are arbitrary; some allocations are clearly more reasonable than
20 others. This is the reason a COSS should only be used as a general guide and as one of
21 several considerations in allocating revenue requirements and designing rates.

1 **Q. What was the process you used in reviewing the Company's COSS?**

2 A. I began by reviewing the overall cost of service methodology used by the Company. I then
3 looked at specific items within the COSS; primarily the allocation factors (for Commodity,
4 Demand, Customer, and Direct Private Fire) used by AZ Water.
5

6 **Q. Did you conduct a separate, independent COSS?**

7 A. No, I did not. I reviewed the Company's COSS by looking specifically at the COSS for the
8 Casa Grande System only. I looked at this system in particular because it contains the most
9 overall customer diversity, i.e., a mixture of Residential, Commercial, Industrial and Direct
10 Private Fire. Since the Company used the same COSS method for all its systems, reviewing
11 the COSS for Casa Grande would be representative of the Company's overall COSS.
12 Therefore, all Staff's comments in this testimony, regarding AZ Water's COSS, are based
13 solely on my review of the Company's Casa Grande COSS.
14

15 **Q. What are Staff's findings regarding the overall cost of service methodology used by the**
16 **Company in this case?**

17 A. The two most generally accepted COSS methods used in the water industry are the Base-
18 Extra Capacity Method and the Commodity-Demand Method as outlined in the American
19 Water Works Association Manual M1, "Principles of Water Rates, Fees, and Charges". For
20 this case, the Company chose the method which I have usually used in the past, which is the
21 Commodity-Demand Method. The Commodity-Demand Method breaks the costs of
22 providing water service into four primary cost components: commodity costs (costs that tend
23 to vary with the amount of water), demand costs (costs associated with peak use/demand),

1 customer costs (costs not associated with water use, e.g., billing) and direct fire protection
2 costs. I find the Company's use of the Commodity-Demand Method in this case to be
3 appropriate.
4

5 **Q. What are Staff's conclusions regarding the Company's COSS allocation factors?**

6 A. Staff is in agreement with the allocation factors used by AZ Water except for those involving
7 General Plant, Water Treatment Expenses, and Transmission & Distribution ("T&D")
8 Expenses.
9

10 **Q. Please explain.**

11 A. Please refer to Schedule G-7:

12 For Water Treatment Expenses, I allocated 90 percent to Commodity and 10 percent to
13 Demand (Company used 48 percent Commodity and 52 percent Demand). I used this
14 allocation because I believe that Water Treatment Expenses will fluctuate primarily with
15 the amount of water sold.
16

17 For Transmission & Distribution Expenses, I allocated 10 percent to Commodity and 90
18 percent to Demand (Company used 42 percent Demand and 58 percent Customer). I used
19 this allocation because I believe that T&D Expenses will fluctuate in the same proportion
20 as T&D Mains, T&D Land and Storage, which the Company and I both allocated 10
21 percent to Commodity and 90 percent to Demand.

1 For General Plant Land and General Plant Structures, I allocated 10 percent to Commodity
2 and 90 percent to Demand (Company allocated 100 percent Demand). I used this
3 allocation because I believe this plant should be allocated in the same manner as T&D
4 Mains, T&D Land, Storage, Intangible Plant, Source of Supply Plant, Pumping Plant and
5 Water Treatment Plant, which the Company and I both allocated 10 percent to Commodity
6 and 90 percent to Demand.

7
8 Leasehold Improvements, Office Furniture & Equipment, Warehouse Equipment, Tools,
9 Shop & Garage Equipment, Laboratory Equipment, Power Operated Equipment,
10 Communication Equipment, and Miscellaneous Equipment, I allocated the same as the
11 Subtotal T&D Plant. The Company allocated all these items as 100 percent Customer,
12 except for Power Operated Equipment and Communication Equipment, which AZ Water
13 allocated 25 percent to Demand. I used this allocation because I believe that all this type
14 general plant should be allocated in the same proportion as T&D Plant and not based on
15 the number of customers.

16
17 **Q. Did you make any other adjustments to AZ Water's Casa Grande COSS?**

18 **A.** Yes, I made the adjustments recommended by Staff with regard to expenses and plant.

19
20 **Q. Please explain.**

21 **A.** For Wells, I deducted \$1,056,318 from the Company's \$5,758,437, per the adjustment on
22 Staff Schedule BKB-2 (Schedule G-7).

1 On Schedule G-6, I made the following adjustments:

2 For Transmission & Distribution Expenses, I deducted \$303,588 from the
3 Company's \$1,887,995, per Staff Schedule AII-4.

4
5 For Depreciation & Amortization Expenses, I deducted \$225,735 from the
6 Company's \$2,329,760, per Staff Schedule AII-4.

7
8 For Income Taxes at Present Rates, I added \$236,522 and \$52,103 to the
9 Company's negative \$549,326, per Staff Schedule AII-4.

10
11 For Property Taxes, I deducted \$131,347 from the Company's \$806,467, per
12 Staff Schedule AII-4.

13
14 On Schedule G-5, I made the following adjustments:

15 For Source of Supply Plant, I deducted \$1,056,318 from the Company's
16 \$6,113,706, per Staff Schedule BKB-2.

17
18 For Accumulated Depreciation, I deducted \$812,369 from the Company's
19 \$17,639,046, per Staff Schedule BKB-2.

20
21 For Customer Deposits, I added a Line to Schedule G-5 (the Company did not
22 include a Line for Customer Deposits) and added \$252,738, per Staff Schedule
23 BKB-2.

24
25 For Working Capital, I deducted \$208,846 from the Company's \$383,959, per
26 Staff Schedule BKB-2.

27
28 For Net Regulatory Asset/(Liability), I deducted \$14,289 from the Company's
29 \$575,803, per Staff Schedule BKB-2.

30
31 **Q. With the adjustments Staff made to allocation factors, expenses and plant discussed**
32 **above, what differences are there between the results of Staff's COSS and AZ Water's?**

33 **A.** In each of the G-1 Schedules, COSS at test year revenues, the specific numbers are different;
34 however, the results of two COSSs could be considered the same.

1 **Q. Please explain.**

2 A. The Company's overall rate of return on its Schedule G-1 for Casa Grande is 1.59 percent,
3 while Staff's is 2.54 percent. Both are below Staff's recommended 8.1 percent. Each of the
4 individual customer class rates of return are on the same side of the overall rate of return for
5 each COSS. What I mean by this is that for:

- 6 1) The Residential class for Staff has a rate of return lower than Staff's overall
7 rate of return and the Residential class for AZ Water has a lower rate of return
8 than the Company's overall rate of return.
9
10 2) The Commercial class for Staff has a rate of return higher than Staff's overall
11 rate of return and the Commercial class for AZ Water has a higher rate of
12 return than the Company's overall rate of return.
13
14 3) The Industrial class for Staff has a rate of return higher than Staff's overall rate
15 of return and the Industrial class for AZ Water has a higher rate of return than
16 the Company's overall rate of return.
17
18 4) The Other class for Staff has a rate of return higher than Staff's overall rate of
19 return and the Other class for AZ Water has a higher rate of return than the
20 Company's overall rate of return.
21
22 5) The Direct Private Fire class for Staff has a rate of return lower than Staff's
23 overall rate of return and the Direct Private Fire class for AZ Water has a
24 lower rate of return than the Company's overall rate of return.
25

26 The above information is the basis for my conclusion that the overall results of the two
27 COSSs are the same, even with the adjustments made by Staff.

28
29 **Q. Did you review all aspects of the Company's COSS?**

30 A. No.

1 **Q. Please explain.**

2 A. I only reviewed the basic portions of the AZ Water's COSS. For Schedule G-1, I did not
3 review anything below Line 25 nor did I review anything on the second page of Schedule
4 G-1. For Schedule G-2, I did not review anything below Line 24. For Schedule G-3, I did
5 not review anything below Line 24 on the first page. For Schedule G-4, I did not review
6 anything below Line 30. For Schedule G-6, I did not review anything below Line 29.

7

8 **Q. Does this conclude your direct testimony?**

9 A. Yes, it does.

Line No.	Casa Grande					
	[A]	[B]	[C]	[D]	[E]	[F]
	Adjusted Total	Residential	Commercial	Industrial	Other	Direct Private Fire
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						

Operating Revenues						
Water Revenues (Sch. H-1)	\$ 10,345,272	\$ 6,578,153	\$ 2,217,848	\$ 1,085,226	\$ 450,777	\$ 13,267
Miscellaneous Revenues ¹ (Sch. H-1)	589,682	374,956	126,418	61,858	25,694	756
Total Operating Revenues	\$ 10,934,954	\$ 6,953,109	\$ 2,344,266	\$ 1,147,084	\$ 476,472	\$ 14,023
Operating Expenses						
Operations & Maintenance Expense	7,158,065	5,234,586	1,244,124	381,444	278,894	29,018
Depreciation & Amortization Expense	2,104,025	1,648,097	306,200	38,089	76,982	34,657
Income Taxes	(260,701)	(594,934)	133,112	217,796	7,595	(24,270)
Property Taxes	675,120	429,283	144,734	70,821	29,417	866
Other Taxes	219,346	160,181	38,071	11,872	8,534	888
Total Operating Expenses	\$ 9,905,855	\$ 6,877,212	\$ 1,866,240	\$ 719,822	\$ 401,422	\$ 41,158
Taxable Income	(735,739)	(1,678,996)	375,662	614,655	21,434	(68,494)
Net Operating Income	\$ 1,029,099	\$ 75,897	\$ 478,026	\$ 427,262	\$ 75,049	\$ (27,135)
Interest Expense	1,504,137	1,159,959	235,475	30,403	61,211	17,089
Rate Base	\$ 40,554,893	\$ 31,274,922	\$ 6,348,904	\$ 819,738	\$ 1,650,367	\$ 460,761

Line No.	Casa Grande					Direct Private Fire
	[A] Adjusted Total	[B] Residential	[C] Commercial	[D] Industrial	[E] Other	
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						

Operating Revenues						
Water Revenues (Sch. H-1)	\$ 14,218,244	\$ 8,769,566	\$ 3,302,139	\$ 1,610,759	\$ 509,059	\$ 26,721
Miscellaneous Revenues ¹ (Sch. H-1)	589,682	363,706	136,952	66,804	21,113	1,108
Total Operating Revenues	\$ 14,807,926	\$ 9,133,272	\$ 3,439,091	\$ 1,677,563	\$ 530,172	\$ 27,829
Operating Expenses						
Operations & Maintenance Expense	7,168,065	5,234,586	1,244,124	381,444	278,894	29,018
Depreciation & Amortization Expense	2,104,025	1,648,097	306,200	38,089	76,982	34,657
Income Taxes	1,584,132	259,566	736,426	575,371	40,587	(27,818)
Property Taxes	675,120	416,403	156,794	76,483	24,171	1,269
Other Taxes	219,346	160,181	38,071	11,672	8,534	888
Total Operating Expenses	\$ 11,750,688	\$ 7,718,832	\$ 2,481,615	\$ 1,083,059	\$ 429,169	\$ 38,013
Taxable Income	3,137,233	514,047	1,458,427	1,139,471	80,379	(55,091)
Net Operating Income	\$ 3,057,238	\$ 1,414,440	\$ 957,476	\$ 594,504	\$ 101,003	\$ (10,184)
Interest Expense	1,504,137	1,159,959	235,475	30,403	61,211	17,089
Rate Base	\$ 40,554,693	\$ 31,274,922	\$ 6,348,904	\$ 819,738	\$ 1,650,367	\$ 460,761
Rate of Return	7.54%	4.52%	15.08%	72.52%	6.12%	-2.21%